

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Covert	County Van Buren
Fiscal Year End June 30, 2007	Opinion Date December 18, 2007	Date Audit Report Submitted to State December 27, 2007	

We affirm that:

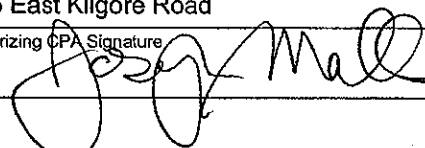
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not Required	
Other (Describe)	<input type="checkbox"/>	Not Required	
Certified Public Accountant (Firm Name) Siegfried Crandall PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Joseph M Walls	License Number 1101013696

Township of Covert
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Covert's (the Township) operations over the fiscal year and its financial condition on June 30, 2007.

Financial highlights

- The Township's total net assets decreased \$305 thousand (3 percent) as a result of this year's operations. Net assets of the governmental activities decreased \$80 thousand, (3 percent), and net assets of the business-type activities decreased \$225 thousand (3 percent).
- Of the \$9.9 million total net assets reported, \$3.7 million is available to be used to meet future operating and capital improvement needs.
- The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$420 thousand, which represents 58 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - The governmental funds statements tell how general government services like public works and public safety were financed in the short term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The Township has two proprietary funds to account for its water and sewer operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets include all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of the services it provides. The Township's sewer system is reported here.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

1. *Government funds*. Most of the Township's basic services are included in governmental funds, which focus on 1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, 2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund financial statements (Continued)

2. *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary activities are reported in separate statements of net assets - fiduciary fund. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets. Total net assets at the end of the fiscal year were \$9.9 million, a decrease of 3 percent over the prior year. However, \$6.2 million of this total is invested in capital assets, and \$1.2 million is restricted for debt service, public safety, and public works. Consequently, unrestricted net assets were \$2.5 million, 26 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,709,054	\$ 1,699,992	\$ 2,319,795	\$ 2,907,780	\$ 4,028,849	\$ 4,607,772
Capital assets	<u>1,266,579</u>	<u>1,326,457</u>	<u>17,410,579</u>	<u>17,649,183</u>	<u>18,677,158</u>	<u>18,975,640</u>
Total assets	<u>2,975,633</u>	<u>3,026,449</u>	<u>19,730,374</u>	<u>20,556,963</u>	<u>22,706,007</u>	<u>23,583,412</u>
Long-term debt outstanding	231,200	228,700	12,352,823	12,828,841	12,584,023	13,057,541
Other liabilities	<u>113,019</u>	<u>85,925</u>	<u>73,451</u>	<u>199,146</u>	<u>186,470</u>	<u>285,071</u>
Total liabilities	<u>344,219</u>	<u>314,625</u>	<u>12,426,274</u>	<u>13,027,987</u>	<u>12,770,493</u>	<u>13,342,612</u>
Net assets:						
Invested in capital assets, net of related debt	1,131,579	1,183,457	5,128,760	4,820,342	6,260,339	6,003,799
Restricted	1,100,400	973,334	112,163	403,616	1,212,563	1,376,950
Unrestricted	<u>399,435</u>	<u>555,033</u>	<u>2,063,177</u>	<u>2,305,018</u>	<u>2,462,612</u>	<u>2,860,051</u>
Total net assets	<u>\$ 2,631,414</u>	<u>\$ 2,711,824</u>	<u>\$ 7,304,100</u>	<u>\$ 7,528,976</u>	<u>\$ 9,935,514</u>	<u>\$ 10,240,800</u>

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (Continued)

Changes in net assets. The Township's total revenues are \$3.0 million. Approximately 67 percent of the Township's revenues come from property taxes, and 7 percent is received as state revenue sharing. About 22 percent of total revenues come from charges for services.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues:						
Charges for services	\$ 393,855	\$ 351,682	\$ 263,500	\$ 261,889	\$ 657,355	\$ 613,571
Operating grants and contributions	9,928	180,960	-	-	9,928	180,960
Capital grants and contributions	2,000	119,282	-	50,000	2,000	169,282
General revenues:						
Property taxes	1,395,501	1,272,337	616,357	887,528	2,011,858	2,159,865
Franchise fees	2,698	-	-	-	2,698	-
State shared revenue	211,186	215,667	-	-	211,186	215,667
Interest income	28,462	28,533	68,295	89,966	96,757	118,499
Other	3,557	136,517	-	-	3,557	136,517
Total revenues	<u>2,047,187</u>	<u>2,304,978</u>	<u>948,152</u>	<u>1,289,383</u>	<u>2,995,339</u>	<u>3,594,361</u>
Expenses:						
Legislative	3,412	2,759	-	-	3,412	2,759
General government	357,791	352,898	-	-	357,791	352,898
Public safety	1,205,434	1,144,632	-	-	1,205,434	1,144,632
Public works	302,400	219,401	1,203,028	893,890	1,505,428	1,113,291
Health and welfare	98,589	99,698	-	-	98,589	99,698
Community and economic development	26,263	37,458	-	-	26,263	37,458
Recreation and culture	97,809	112,900	-	-	97,809	112,900
Interest	5,899	4,028	-	-	5,899	4,028
Total expenses	<u>2,097,597</u>	<u>1,973,774</u>	<u>1,203,028</u>	<u>893,890</u>	<u>3,300,625</u>	<u>2,867,664</u>
Excess (deficiency) before transfers	(50,410)	331,204	(254,876)	395,493	(305,286)	726,697
Transfers	<u>(30,000)</u>	<u>(10,000)</u>	<u>30,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (80,410)</u>	<u>\$ 321,204</u>	<u>\$ (224,876)</u>	<u>\$ 405,493</u>	<u>\$ (305,286)</u>	<u>\$ 726,697</u>

Governmental activities. Governmental activities decreased the Township's net assets by \$80 thousand. Key factors for this decrease include the \$60 thousand excess of depreciation over governmental capital outlays and other accrual adjustments which totaled a negative \$21 thousand. There were \$30 thousand in transfers from governmental funds to the business-type funds, but this amount approximated the current governmental activity increase prior to the above accrual adjustments. The cost of all governmental activities this year was \$2.1 million. After subtracting the direct charges to those who directly benefited from the programs (\$394 thousand), operating grants (\$10 thousand), and capital grants (\$2 thousand), the "public benefit" portion covered by taxes, state revenue sharing, other general revenues, and available surplus was \$1.7 million.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Business-type activities. Business-type activities decreased the Township's net assets by \$255 thousand. Revenues of \$948 thousand including property taxes did not offset expenses of \$1.2 million including \$553 thousand in interest expense and \$396 thousand in depreciation.

The Township levies an annual tax for the purposes of paying principal and interest for outstanding water bonds payable. The tax totaled \$616 thousand in 2007.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At June 30, 2007, the Township's governmental funds reported a combined fund balance of \$1.6 million, approximately the same as last year.

Expenditures in the General Fund exceeded revenues by \$38 thousand. However, the fund balance of the General Fund decreased by \$16 thousand because transfers to the Police Fund and Sewer Fund in the amount of \$125,000 exceeded General Fund transfers of \$20 thousand from the Fire and Ambulance Fund. The use of available surplus was greater than the anticipated amount in the General Fund budget for 2007, and a \$436 thousand fund balance remains in the fund.

The Police Fund had a \$6 thousand increase in its fund balances this year, after the above transfers from other funds. The Fire and Ambulance Fund balance increased by \$30 thousand. The Fire and Ambulance Fund was able to transfer \$20,000 back to the General Fund this year, as a repayment of prior General Fund subsidies.

General fund budgetary highlights

The Township did not amend the General Fund budget to prevent budget overruns.

Positive variances in several expenditure categories resulted in a net positive expenditure budget variance of \$55 thousand. Actual revenues for the year were approximately \$43 thousand more than projected, resulting in a net positive variance of revenues less expenditures of \$98 thousand. The additional \$125 thousand negative variance of net operating transfers, which were not budgeted, resulted in a total negative variance of \$27 thousand for the year, compared to budget.

Capital assets and debt administration

Capital assets.

At June 30, 2007, the Township had invested \$18.7 million in various capital assets, net of depreciation, including its land, buildings, equipment, and water and wastewater systems. This amount represents a decrease of \$298 thousand, 1.6 percent over the prior year.

This year's major capital asset additions included \$157 thousand in additions to the Township's water supply system, financed with proceeds available from the 2003 water bond issue. The Township also acquired \$51 thousand in governmental capital assets, including \$42 thousand in fire and ambulance vehicles and equipment.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (Continued)

Capital assets and debt administration (Continued)

Detailed information about the Township's capital assets is presented in Note 6 to the financial statements.

Long-term debt.

At the end of the fiscal year, the Township had total long-term bonds and contracts outstanding in the amount of \$12,522,500, which represents a decrease of \$491,000. Of this amount, \$522,500 consists of debt backed by the full faith and credit of the Township. Another \$12,000,000 represents bonds secured solely by specific revenue sources (i.e., special assessments and taxes).

During the year ended June 30, 2007, the Township decreased its long-term debt through the retirement of various bonds and contracts totaling \$491,000. All debt service payments were made in a timely manner.

Other long-term debt obligations, totaling \$96,000, represent accrued compensated absences.

More detailed information about the Township's noncurrent liabilities is presented in Note 7 of the notes to the basic financial statements.

Economic condition and outlook

Approximately \$420 thousand is available for appropriation in the General Fund budget. Modest increases in property taxes from increased assessed values are expected next year. Overall, revenues are expected to increase slightly for 2007.

The Township has not added other major new programs or initiatives to the 2008 budget. Various cost increases in payroll and fringe benefits are anticipated. Overall, the General Fund balance is expected to remain stable during fiscal year 2008.

A recently approved increase in the Township's police millage will provide increased property tax revenue of approximately \$140,000, which will most likely eliminate the need for a subsidy from the General Fund to the Police Fund. Revenues in other governmental funds are expected to remain stable.

The Township's Water Fund is expected to operate so that revenues, including property taxes for debt service, will continue to exceed expenses for water services. However, the Sewer Fund is expected to again generate limited cash flows, which may again require a subsidy from the General Fund to cover capital financing costs.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Township of Covert, Supervisor's Office, P.O. Box 35, Covert, Michigan 49043 (Phone: (269) 764-8986.)

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Township of Covert, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Covert, Michigan, as of June 30, 2007, and for the year then ended, which collectively comprise the Township of Covert, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Covert, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated November 28, 2007, on our consideration of the Township of Covert, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



1958-2008

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Covert, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Covert, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

December 18, 2007

BASIC FINANCIAL STATEMENTS

Township of Covert
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Govern- mental activities</u>	<u>Business- type activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 1,549,390	\$ 1,373,073	\$ 2,922,463
Receivables	<u>147,388</u>	<u>133,440</u>	<u>280,828</u>
Total current assets	<u>1,696,778</u>	<u>1,506,513</u>	<u>3,203,291</u>
Noncurrent assets:			
Receivables	12,276	742,278	754,554
Deferred charges	-	71,004	71,004
Capital assets not being depreciated - land	-	94,583	94,583
Capital assets, net of accumulated depreciation	<u>1,266,579</u>	<u>17,315,996</u>	<u>18,582,575</u>
Total noncurrent assets	<u>1,278,855</u>	<u>18,223,861</u>	<u>19,502,716</u>
Total assets	<u>2,975,633</u>	<u>19,730,374</u>	<u>22,706,007</u>
LIABILITIES			
Current liabilities:			
Payables	113,019	73,451	186,470
Current maturities of long-term debt	<u>8,000</u>	<u>659,000</u>	<u>667,000</u>
Total current liabilities	<u>121,019</u>	<u>732,451</u>	<u>853,470</u>
Noncurrent liabilities:			
Compensated absences	96,200	-	96,200
Long-term debt	<u>127,000</u>	<u>11,693,823</u>	<u>11,820,823</u>
Total noncurrent liabilities	<u>223,200</u>	<u>11,693,823</u>	<u>11,917,023</u>
Total liabilities	<u>344,219</u>	<u>12,426,274</u>	<u>12,770,493</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,131,579	5,128,760	6,260,339
Restricted for:			
Debt service	30,879	112,163	143,042
Public safety	617,306	-	617,306
Public works	452,215	-	452,215
Unrestricted	<u>399,435</u>	<u>2,063,177</u>	<u>2,462,612</u>
Total net assets	<u>\$ 2,631,414</u>	<u>\$ 7,304,100</u>	<u>\$ 9,935,514</u>

See notes to financial statements

Township of Covert
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

		<u>Program revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
			<u>contributions</u>	<u>contributions</u>
Functions/Programs				
Governmental activities:				
Legislative	\$ 3,412	\$ -	\$ -	\$ -
General government	357,791	164,824	-	2,000
Public safety	1,205,434	148,568	3,618	-
Public works	302,400	3,474	6,310	-
Health and welfare	98,589	-	-	-
Community and economic development	26,263	800	-	-
Recreation and culture	97,809	76,189	-	-
Interest on long-term debt	5,899	-	-	-
Total governmental activities	<u>2,097,597</u>	<u>393,855</u>	<u>9,928</u>	<u>2,000</u>
Business-type activities:				
Water	1,073,493	184,669	-	-
Sewer	<u>129,535</u>	<u>78,831</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,203,028</u>	<u>263,500</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,300,625</u>	<u>\$ 657,355</u>	<u>\$ 9,928</u>	<u>\$ 2,000</u>
General revenues:				
Property taxes				
Franchise fees				
State shared revenues				
Investment income				
Other				
Transfers				
Total general revenues				
Change in net assets				
Net assets - beginning				
Net assets - ending				

Net (expenses) revenues and changes in net assets		
<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (3,412)		\$ (3,412)
(190,967)		(190,967)
(1,053,248)		(1,053,248)
(292,616)		(292,616)
(98,589)		(98,589)
(25,463)		(25,463)
(21,620)		(21,620)
(5,899)		(5,899)
<u>(1,691,814)</u>		<u>(1,691,814)</u>
	\$ (888,824)	(888,824)
	<u>(50,704)</u>	<u>(50,704)</u>
	<u>(939,528)</u>	<u>(939,528)</u>
<u>(1,691,814)</u>	<u>(939,528)</u>	<u>(2,631,342)</u>
1,395,501	616,357	2,011,858
2,698	-	2,698
211,186	-	211,186
28,462	68,295	96,757
3,557	-	3,557
<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
<u>1,611,404</u>	<u>714,652</u>	<u>2,326,056</u>
(80,410)	(224,876)	(305,286)
<u>2,711,824</u>	<u>7,528,976</u>	<u>10,240,800</u>
<u>\$ 2,631,414</u>	<u>\$ 7,304,100</u>	<u>\$ 9,935,514</u>

See notes to financial statements

Township of Covert
BALANCE SHEET - governmental funds
June 30, 2007

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>
ASSETS			
Cash	\$ 435,910	\$ 166,167	\$ 428,096
Receivables	<u>117,660</u>	<u>-</u>	<u>29,728</u>
Total assets	<u>\$ 553,570</u>	<u>\$ 166,167</u>	<u>\$ 457,824</u>
LIABILITIES AND FUND BALANCES			
Liabilities - accounts payable			
Payables	\$ 90,523	\$ 9,426	\$ 13,070
Deferred revenue	<u>27,512</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>118,035</u>	<u>9,426</u>	<u>13,070</u>
Fund balances:			
Reserved for building inspections	15,811	-	-
Reserved for debt service	-	-	30,879
Reserved for long-term receivables	-	-	-
Unreserved, undesignated	419,724	156,741	413,875
Unreserved, reported in other governmental funds - special revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>435,535</u>	<u>156,741</u>	<u>444,754</u>
Total liabilities and fund balances	<u>\$ 553,570</u>	<u>\$ 166,167</u>	<u>\$ 457,824</u>

Total fund balances - governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Other long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the funds

Net assets of governmental funds

<i>Other governmental funds</i>	<i>Totals</i>
\$ 519,217	\$ 1,549,390
12,276	159,664
<u>\$ 531,493</u>	<u>\$ 1,709,054</u>
\$ -	\$ 113,019
-	27,512
<u>-</u>	<u>140,531</u>
-	15,811
-	30,879
12,276	12,276
-	990,340
<u>519,217</u>	<u>519,217</u>
<u>531,493</u>	<u>1,568,523</u>
<u>\$ 531,493</u>	<u>\$ 1,709,054</u>
	\$ 1,568,523
	1,266,579
	27,512
	(135,000)
	<u>(96,200)</u>
	<u>\$ 2,631,414</u>

See notes to financial statements

Township of Covert**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCES - governmental funds**

Year ended June 30, 2007

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>
REVENUES			
Taxes	\$ 364,038	\$ 369,958	\$ 563,506
Licenses and permits	28,561	-	-
State grants	215,554	3,618	-
Charges for services	93,107	-	61,630
Fines and forfeitures	-	11,327	-
Interest and rentals	30,930	1,450	5,286
Other	27,692	5,681	7,976
Total revenues	<u>759,882</u>	<u>392,034</u>	<u>638,398</u>
EXPENDITURES			
Legislative	3,412	-	-
General government	345,766	-	-
Public safety	75,567	477,614	552,521
Public works	176,222	-	-
Health and welfare	-	-	-
Community and economic development	26,263	-	-
Recreation and culture	84,257	-	-
Capital outlay	10,554	23,321	22,060
Debt service:			
Principal	-	-	8,000
Interest	-	-	5,899
Total expenditures	<u>722,041</u>	<u>500,935</u>	<u>588,480</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>37,841</u>	<u>(108,901)</u>	<u>49,918</u>
OTHER FINANCING SOURCES (USES)			
Transfers in from other funds	20,000	115,000	-
Transfers out to other funds	(125,000)	-	(20,000)
Total other financing sources (uses)	<u>(105,000)</u>	<u>115,000</u>	<u>(20,000)</u>
NET CHANGES IN FUND BALANCES	(67,159)	6,099	29,918
FUND BALANCES - BEGINNING	<u>502,694</u>	<u>150,642</u>	<u>414,836</u>
FUND BALANCES - ENDING	<u>\$ 435,535</u>	<u>\$ 156,741</u>	<u>\$ 444,754</u>

<i>Other governmental funds</i>	<i>Totals</i>
\$ 284,970	\$ 1,582,472
-	28,561
-	219,172
-	154,737
-	11,327
8,054	45,720
-	41,349
<u>293,024</u>	<u>2,083,338</u>
-	3,412
-	345,766
-	1,105,702
78,966	255,188
161,667	161,667
585	26,848
-	84,257
-	55,935
-	8,000
-	5,899
<u>241,218</u>	<u>2,052,674</u>
<u>51,806</u>	<u>30,664</u>
-	135,000
<u>(20,000)</u>	<u>(165,000)</u>
<u>(20,000)</u>	<u>(30,000)</u>
31,806	664
<u>499,687</u>	<u>1,567,859</u>
<u>\$ 531,493</u>	<u>\$ 1,568,523</u>

See notes to financial statements

Township of Covert

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended June 30, 2007

	<i>Total governmental funds</i>
Net change in fund balances - total governmental funds	\$ 664
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital assets:	
Add acquisitions	51,590
Deduct provision for depreciation	(111,468)
Long-term obligations:	
Add repayment of principal	8,000
Changes in other assets and liabilities:	
Deduct decrease in prepaid expenses	(46,208)
Deduct increase in compensated absences	(10,500)
Add decrease in deferred revenue	<u>27,512</u>
Change in net assets of <i>governmental activities</i>	<u>\$ (80,410)</u>

See notes to financial statements

Township of Covert
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2007

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Nonmajor</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,309,555	\$ 18,249	\$ 1,327,804
Receivables, net	104,486	28,954	133,440
Bond debt reserves - USDA loan	-	45,269	45,269
Total current assets	<u>1,414,041</u>	<u>92,472</u>	<u>1,506,513</u>
Noncurrent assets:			
Receivables, net	740,697	1,581	742,278
Deferred charges	71,004	-	71,004
Capital assets, not being depreciated - land	-	94,583	94,583
Capital assets, net of accumulated depreciation	<u>16,190,996</u>	<u>1,125,000</u>	<u>17,315,996</u>
Total noncurrent assets	<u>17,002,697</u>	<u>1,221,164</u>	<u>18,223,861</u>
Total assets	<u>18,416,738</u>	<u>1,313,636</u>	<u>19,730,374</u>
LIABILITIES			
Current liabilities:			
Accounts payable	20,024	1,751	21,775
Accrued interest	41,988	9,688	51,676
Current maturities of long-term debt	<u>650,000</u>	<u>9,000</u>	<u>659,000</u>
Total current liabilities	712,012	20,439	732,451
Noncurrent liabilities - long-term debt	<u>11,315,323</u>	<u>378,500</u>	<u>11,693,823</u>
Total liabilities	<u>12,027,335</u>	<u>398,939</u>	<u>12,426,274</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,296,677	832,083	5,128,760
Restricted for debt service	76,582	35,581	112,163
Unrestricted	<u>2,016,144</u>	<u>47,033</u>	<u>2,063,177</u>
Total net assets	<u>\$ 6,389,403</u>	<u>\$ 914,697</u>	<u>\$ 7,304,100</u>

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS - *proprietary funds*

Year ended June 30, 2007

	<i>Business-type activities - enterprise funds</i>		
	<i>Major</i>	<i>Non-major</i>	
	<i>Water</i>	<i>Sewer</i>	<i>Totals</i>
OPERATING REVENUES			
Charges for services	\$ 147,914	\$ 78,831	\$ 226,745
Hook up fees	36,755	-	36,755
Total operating revenues	184,669	78,831	263,500
OPERATING EXPENSES			
Contractual services	191,343	21,501	212,844
Utilities	563	2,862	3,425
Depreciation	347,448	48,190	395,638
Repairs and maintenance	3,985	33,693	37,678
Total operating expenses	543,339	106,246	649,585
OPERATING LOSS	(358,670)	(27,415)	(386,085)
NONOPERATING REVENUES (EXPENSES)			
Interest	67,588	707	68,295
Interest expense	(530,154)	(23,289)	(553,443)
Property taxes	616,357	-	616,357
Total nonoperating revenues (expenses)	153,791	(22,582)	131,209
LOSS BEFORE TRANSFERS	(204,879)	(49,997)	(254,876)
TRANSFERS IN			
General Fund	-	10,000	10,000
Loan Fund	-	20,000	20,000
Total transfers in	-	30,000	30,000
CHANGE IN NET ASSETS	(204,879)	(19,997)	(224,876)
NET ASSETS - BEGINNING	6,594,282	934,694	7,528,976
NET ASSETS - ENDING	\$ 6,389,403	\$ 914,697	\$ 7,304,100

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2007

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 191,042	\$ 69,336	\$ 260,378
Payments to suppliers	<u>(202,996)</u>	<u>(75,532)</u>	<u>(278,528)</u>
Net cash used in operating activities	<u>(11,954)</u>	<u>(6,196)</u>	<u>(18,150)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Collections of property taxes	616,357	-	616,357
Collection of special assessment principal	59,844	-	59,844
Collection of special assessment interest	38,490	-	38,490
Transfers in - General Fund	-	10,000	10,000
Transfers in - Loan Fund	-	20,000	20,000
Principal payments on long-term debt	(475,000)	(8,000)	(483,000)
Interest payments on long-term debt	<u>(523,611)</u>	<u>(23,490)</u>	<u>(547,101)</u>
Net cash used in capital and related financing activities	<u>(283,920)</u>	<u>(1,490)</u>	<u>(285,410)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>30,870</u>	<u>707</u>	<u>31,577</u>
NET DECREASE IN CASH	<u>(265,004)</u>	<u>(6,979)</u>	<u>(271,983)</u>
CASH - BEGINNING	<u>1,574,559</u>	<u>70,497</u>	<u>1,645,056</u>
CASH - ENDING	<u>\$ 1,309,555</u>	<u>\$ 63,518</u>	<u>\$ 1,373,073</u>

See notes to financial statements

Township of Covert

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2007

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (358,670)	\$ (27,415)	\$ (386,085)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	347,448	48,190	395,638
(Increase) decrease in accounts receivable	6,373	(9,495)	(3,122)
Decrease in accounts payable	<u>(7,105)</u>	<u>(17,476)</u>	<u>(24,581)</u>
Net cash used in operating activities	<u>\$ (11,954)</u>	<u>\$ (6,196)</u>	<u>\$ (18,150)</u>
SUPPLEMENTARY CASH FLOW INFORMATION:			
Acquisition of capital assets	\$ (157,034)	\$ -	\$ (157,034)
Decrease in accounts payable	(96,036)	-	(96,036)
Decrease in due from other governmental units	<u>253,070</u>	<u>-</u>	<u>253,070</u>
Cash used	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

Township of Covert

STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds*

June 30, 2007

ASSETS

Cash	\$ <u>10,033</u>
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LIABILITIES

Due to other governmental units	\$ <u>10,033</u>
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See notes to the financial statements

Township of Covert
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Covert, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present only the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund, and Fire and Ambulance Fund account for public safety activities.

The Township reports a single major proprietary fund, Water Fund, which accounts for activities of the Township's water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the GASB. The Township also has the option of following subsequent private sector guidance for its business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

vi) Fund equity (continued) - outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year. The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	Ordinance enforcement	\$ 30,000	\$ 53,007	\$ 23,007
	Public works	Airport Authority	-	63,894	63,894
	Recreation and culture	Other	-	20,422	20,422
	Capital outlay	Capital outlay	-	10,554	10,554
	Transfer out	Transfer to Police Fund	-	115,000	115,000
	Transfer out	Transfer to Sewer Fund	-	10,000	10,000
Police	Public safety	Police protection	439,500	477,614	38,114
Fire and Ambulance	Capital outlay	Capital outlay	20,000	22,060	2,060
Hospital	Health and welfare	Hospital	-	98,004	98,004
Seniors	Health and welfare	Senior services	-	63,663	63,663
Loan	Transfer out	Transfer to Sewer Fund	-	20,000	20,000

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits, as presented in the government-wide statement of net assets, are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 1,518,511	\$ 1,327,804	\$ 10,033	\$ 2,856,348
Restricted assets	30,879	45,269	-	76,148
Total cash	<u>\$ 1,549,390</u>	<u>\$ 1,373,073</u>	<u>\$ 10,033</u>	<u>\$ 2,932,496</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance. At June 30, 2007, 2,794,295 of the Township's bank balances of \$2,994,295 was exposed to custodial credit risk because it was uninsured. Bond debt reserves in the amount of \$76,148 are held in separate accounts, as required by the U.S. Department of Agriculture.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, and business-type funds are as follows:

	<u>General</u>	<u>Fire and Ambulance</u>	<u>Non- major</u>	<u>Total govern- mental</u>	<u>Water</u>	<u>Non- major</u>	<u>Total business- type</u>
Accounts	\$ 49,739	\$ 29,728	\$12,276	\$ 91,743	\$ 37,903	\$ 30,535	\$ 68,438
Intergovernmental	67,921	-	-	67,921	95,385	-	95,385
Assessments	-	-	-	-	691,406	-	691,406
Interest	-	-	-	-	20,489	-	20,489
Receivables, net	<u>\$ 117,660</u>	<u>\$ 29,728</u>	<u>\$12,276</u>	<u>\$159,664</u>	<u>\$ 845,183</u>	<u>\$ 30,535</u>	<u>\$ 875,718</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,276</u>	<u>\$ 12,276</u>	<u>\$ 740,697</u>	<u>\$ 1,581</u>	<u>\$ 742,278</u>

NOTE 5 - ECONOMIC DEPENDENCY:

The Township received approximately 50 percent of its property tax revenues from one major taxpayer.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2007, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 48,710	\$ -	\$ -	\$ 48,710
Capital assets being depreciated				
Buildings and improvements	\$ 1,440,915	\$ 10,054	\$ -	\$ 1,450,969
Furniture, fixtures, and equipment	557,873	18,620	-	576,493
Vehicles	577,156	22,916	-	600,072
Subtotal	2,575,944	51,590	-	2,627,534
Less accumulated depreciation for:				
Buildings and improvements	(641,761)	(38,825)	-	(680,586)
Furniture, fixtures, and equipment	(274,997)	(39,239)	-	(314,236)
Vehicles	(381,439)	(33,404)	-	(414,843)
Subtotal	(1,298,197)	(111,468)	-	(1,409,665)
Total capital assets being depreciated, net	1,277,747	(59,878)	-	1,217,869
Governmental activities capital assets, net	\$ 1,326,457	\$ (59,878)	\$ -	\$ 1,266,579

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 94,583	\$ -	\$ -	\$ 94,583
Construction in progress	<u>876,726</u>	<u>157,034</u>	<u>(1,033,760)</u>	<u>-</u>
Subtotal	<u>971,309</u>	<u>157,034</u>	<u>(1,033,760)</u>	<u>94,583</u>
Capital assets being depreciated:				
Sewer system	1,906,269	-	-	1,906,269
Water system	<u>16,855,518</u>	<u>1,033,760</u>	<u>-</u>	<u>17,889,278</u>
Subtotal	<u>18,761,787</u>	<u>1,033,760</u>	<u>-</u>	<u>19,795,547</u>
Less accumulated depreciation for:				
Sewer system	(733,079)	(48,190)	-	(781,269)
Water system	<u>(1,350,834)</u>	<u>(347,448)</u>	<u>-</u>	<u>(1,698,282)</u>
Subtotal	<u>(2,083,913)</u>	<u>(395,638)</u>	<u>-</u>	<u>(2,479,551)</u>
Total capital assets being depreciated, net	<u>16,677,874</u>	<u>638,122</u>	<u>-</u>	<u>17,315,996</u>
Business-type activities capital assets, net	<u>\$ 17,649,183</u>	<u>\$ 795,156</u>	<u>\$ (1,033,760)</u>	<u>\$ 17,410,579</u>

Depreciation expense was charged to the governmental activities of the Township as follows:

General government	\$ 12,025
Public safety	85,387
Public works	504
Recreation and culture	<u>13,552</u>
Total governmental activities	<u>\$ 111,468</u>

NOTE 7 - LONG-TERM DEBT:

At June 30, 2007, long-term liabilities are comprised of the following individual issues:

Governmental activities:	
\$150,000 4.125% USDA installment loan; due in annual installments of \$7,000 to \$13,000 through	\$ 135,000
Accrued compensated absences	<u>96,200</u>
Total long-term obligations	<u>\$ 231,200</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (Continued):

Business type activities:

Sanitary sewer revenue bonds, series 1989A, bearing interest at 6%,
maturing each year 1991 through 2029 \$ 263,500

Sanitary sewer revenue bonds, series 1989B, bearing interest at 6%,
maturing each year 1991 through 2029 124,000

\$5,000,000 County of Van Buren Water Supply System limited tax general
obligation bond series 2002, bearing interest at 3.50 to 4.75%, maturing
each year through 2021, net of unamortized discount of \$37,154 4,640,323

\$7,500,000 County of Van Buren Water Supply System limited tax general
obligation bond series 2003, bearing interest at 3.000 to 4.375%, maturing
each year through 2024 7,325,000

Total bonds \$ 12,352,823

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Governmental activities:					
Note payable	\$ 143,000	\$ -	\$ (8,000)	\$ 135,000	\$ 8,000
Compensated absences	<u>85,700</u>	<u>39,481</u>	<u>(28,981)</u>	<u>96,200</u>	<u>-</u>
Total	<u>\$ 228,700</u>	<u>\$ 39,481</u>	<u>\$ (36,981)</u>	<u>\$ 231,200</u>	<u>\$ 8,000</u>
Business-type activities:					
1989A revenue bonds	\$ 269,000	\$ -	\$ (5,500)	\$ 263,500	\$ 6,000
1989B revenue bonds	126,500	-	(2,500)	124,000	3,000
1997 general obligation	300,000	-	(300,000)	-	-
2002 general obligation	4,775,000	-	(100,000)	4,675,000	325,000
2003 general obligation	<u>7,400,000</u>	<u>-</u>	<u>(75,000)</u>	<u>7,325,000</u>	<u>325,000</u>
	12,870,500	-	(483,000)	12,387,500	<u>\$ 659,000</u>
Less bond discounts	<u>(41,659)</u>	<u>-</u>	<u>6,982</u>	<u>(34,677)</u>	
Total	<u>\$ 12,828,841</u>	<u>\$ -</u>	<u>\$ (476,018)</u>	<u>\$ 12,352,823</u>	

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (Continued):

Debt service requirements (exclusive of compensated absences) at June 30, 2007, were as follows:

<u>Years ended June 30:</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,000	\$ 5,569	\$ 659,000	\$ 526,559
2009	8,000	5,239	659,500	500,801
2010	9,000	4,909	660,500	474,983
2011	9,000	4,537	661,000	448,323
2012	9,000	4,166	662,000	421,603
2013-2017	54,000	18,892	3,470,500	1,689,278
2018-2022	38,000	3,176	3,939,500	900,547
2023-2027	-	-	1,605,500	132,237
2028-2030	-	-	70,000	4,260
Totals	<u>\$ 135,000</u>	<u>\$ 46,488</u>	<u>\$ 12,387,500</u>	<u>\$ 5,098,591</u>

NOTE 8 - INTERFUND TRANSFERS:

The \$20,000 transfer from the Fire and Ambulance Fund to the General Fund repaid unused portions of cumulative prior years subsidies from the General Fund to the Fire and Ambulance Fund.

The General Fund transferred to the Police Fund of \$115,000 represented a current year operating subsidy. The General Fund also transferred \$10,000 to the Sewer Fund (a non-major proprietary fund) to support capital and related financing activities.

The transfer from the Loan Fund to the Sewer Fund (a non-major proprietary fund) of \$20,000 represented support of capital and related financing activities.

NOTE 9 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains a defined contribution plan. The plan is a non-trustee plan and the Township does not administer the plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. All members of the Township Board and all Township employees employed full-time on a regular basis are eligible to participate. Eligible employees may begin participating after six months of employment. The Township contributes 6 percent of participating employees' annual compensation.

All of the Township's contributions for each participating employee (and interest allocated to the employee's account) are fully vested when the employee participates in the plan. The Township made required contributions of \$57,466 for the year ended June 30, 2007.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - CLAIMS ARISING FROM RISK OF LOSS:

The Township is exposed to various risks of losses for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of losses arising from possible claims are managed through the purchase of commercial insurance.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2007, is as follows:

Revenues	\$ 27,957
Expenses	<u>22,560</u>
Excess of revenues over expenses	<u>\$ 5,397</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 371,830	\$ 371,830	\$ 364,038	\$ (7,792)
Licenses and permits	16,000	16,000	28,561	12,561
State grants	220,000	220,000	215,554	(4,446)
Charges for services	55,000	55,000	93,107	38,107
Interest and rentals	24,400	24,400	30,930	6,530
Other	30,000	30,000	27,692	(2,308)
Total revenues	<u>717,230</u>	<u>717,230</u>	<u>759,882</u>	<u>42,652</u>
EXPENDITURES				
Legislative - Township Board	<u>3,500</u>	<u>3,500</u>	<u>3,412</u>	<u>88</u>
General government:				
Supervisor	30,000	30,000	24,747	5,253
Elections	15,000	15,000	6,294	8,706
Assessing	80,000	80,000	64,115	15,885
Clerk	40,000	40,000	32,500	7,500
Board of review	5,000	5,000	2,866	2,134
Treasurer	50,000	50,000	42,556	7,444
Buildings and grounds	30,000	30,000	18,247	11,753
Cemetery	20,000	20,000	6,651	13,349
Other	186,500	186,500	147,790	38,710
Total general government	<u>456,500</u>	<u>456,500</u>	<u>345,766</u>	<u>110,734</u>
Public safety:				
Building inspections	49,000	49,000	22,560	26,440
Ordinance enforcement	<u>30,000</u>	<u>30,000</u>	<u>53,007</u>	<u>(23,007)</u>
Total public safety	<u>79,000</u>	<u>79,000</u>	<u>75,567</u>	<u>3,433</u>
Public works:				
Highways and streets	75,000	75,000	72,991	2,009
Transfer station	40,000	40,000	34,661	5,339
Housing Commission	2,500	2,500	1,281	1,219
Drains	10,000	10,000	3,395	6,605
Airport Authority	-	-	63,894	(63,894)
Total public works	<u>127,500</u>	<u>127,500</u>	<u>176,222</u>	<u>(48,722)</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	\$ 30,000	\$ 30,000	\$ 26,263	\$ 3,737
Recreation and culture:				
Parks	75,000	75,000	58,744	16,256
Library	6,000	6,000	5,091	909
Other	-	-	20,422	(20,422)
Total recreation and culture	81,000	81,000	84,257	(3,257)
Capital outlay	-	-	10,554	(10,554)
Total expenditures	777,500	777,500	722,041	55,459
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,270)	(60,270)	37,841	98,111
OTHER FINANCING SOURCES (USES)				
Transfer from Fire and Ambulance Fund	20,000	20,000	20,000	-
Transfer to Police Fund	-	-	(115,000)	(115,000)
Transfer to Sewer Fund	-	-	(10,000)	(10,000)
Total transfers out	-	-	(125,000)	(125,000)
Total other financing sources (uses)	20,000	20,000	(105,000)	(125,000)
NET CHANGES IN FUND BALANCES	(40,270)	(40,270)	(67,159)	(26,889)
FUND BALANCES - BEGINNING	502,694	502,694	502,694	-
FUND BALANCES - ENDING	\$ 462,424	\$ 462,424	\$ 435,535	\$ (26,889)

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Police Fund
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 375,000	\$ 375,000	\$ 369,958	\$ (5,042)
State grants	-	-	3,618	3,618
Fines and forfeitures	6,000	6,000	11,327	5,327
Interest	1,000	1,000	1,450	450
Other	7,500	7,500	5,681	(1,819)
Total revenues	<u>389,500</u>	<u>389,500</u>	<u>392,034</u>	<u>2,534</u>
EXPENDITURES				
Public safety - police protection	439,500	439,500	477,614	(38,114)
Capital outlay	30,000	30,000	23,321	6,679
Total expenditures	<u>469,500</u>	<u>469,500</u>	<u>500,935</u>	<u>(31,435)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(80,000)	(80,000)	(108,901)	(28,901)
OTHER FINANCING SOURCES				
Transfer from General Fund	<u>80,000</u>	<u>80,000</u>	<u>115,000</u>	<u>(35,000)</u>
NET CHANGES IN FUND BALANCES	-	-	6,099	6,099
FUND BALANCES - BEGINNING	<u>150,642</u>	<u>150,642</u>	<u>150,642</u>	-
FUND BALANCES - ENDING	<u>\$ 150,642</u>	<u>\$ 150,642</u>	<u>\$ 156,741</u>	<u>\$ (28,901)</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Fire and Ambulance Fund
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 574,260	\$ 574,260	\$ 563,506	\$ (10,754)
Charges for services	70,000	70,000	61,630	(8,370)
Interest	2,000	2,000	5,286	3,286
Other	<u>6,000</u>	<u>6,000</u>	<u>7,976</u>	<u>1,976</u>
Total revenues	<u>652,260</u>	<u>652,260</u>	<u>638,398</u>	<u>(13,862)</u>
EXPENDITURES:				
Public safety	601,500	601,500	552,521	48,979
Capital outlay	20,000	20,000	22,060	(2,060)
Debt service:				
Principal	8,000	8,000	8,000	-
Interest	<u>6,000</u>	<u>6,000</u>	<u>5,899</u>	<u>101</u>
Total expenditures	<u>635,500</u>	<u>635,500</u>	<u>588,480</u>	<u>47,020</u>
EXCESS OF REVENUES OVER EXPENDITURES	16,760	16,760	49,918	33,158
OTHER FINANCING USES				
Transfer to General Fund	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(3,240)	(3,240)	29,918	33,158
FUND BALANCES - BEGINNING	<u>414,836</u>	<u>414,836</u>	<u>414,836</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 411,596</u>	<u>\$ 411,596</u>	<u>\$ 444,754</u>	<u>\$ 33,158</u>

SUPPLEMENTARY INFORMATION

Township of Covert
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2007

	Special revenue funds				Total nonmajor governmental funds
	<u>Roads</u>	<u>Hospital</u>	<u>Seniors</u>	<u>Loan</u>	
ASSETS					
Cash	\$ 452,215	\$ -	\$ -	\$ 67,002	\$ 519,217
Receivables, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,276</u>	<u>12,276</u>
Total assets	<u>\$ 452,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,278</u>	<u>\$ 531,493</u>
FUND BALANCES					
Reserved for long-term receivables	\$ -	\$ -	\$ -	\$ 12,276	\$ 12,276
Unreserved, undesignated	<u>452,215</u>	<u>-</u>	<u>-</u>	<u>67,002</u>	<u>519,217</u>
Total fund balances	<u>\$ 452,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,278</u>	<u>\$ 531,493</u>

Township of Covert

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2007

	<u>Special revenue funds</u>				<i>Total nonmajor governmental funds</i>
	<u>Roads</u>	<u>Hospital</u>	<u>Seniors</u>	<u>Loan</u>	
REVENUES					
Taxes	\$ 123,303	\$ 98,004	\$ 63,663	\$ -	\$ 284,970
Interest	8,054	-	-	-	8,054
Total revenues	<u>131,357</u>	<u>98,004</u>	<u>63,663</u>	<u>-</u>	<u>293,024</u>
EXPENDITURES					
Public works	78,966	-	-	-	78,966
Health and welfare	-	98,004	63,663	-	161,667
Community and economic development	-	-	-	585	585
Total expenditures	<u>78,966</u>	<u>98,004</u>	<u>63,663</u>	<u>585</u>	<u>241,218</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	52,391	-	-	(585)	51,806
OTHER FINANCING USES					
Transfer out	-	-	-	(20,000)	(20,000)
NET CHANGES IN FUND BALANCES	52,391	-	-	(20,585)	31,806
FUND BALANCES - BEGINNING	<u>399,824</u>	<u>-</u>	<u>-</u>	<u>99,863</u>	<u>499,687</u>
FUND BALANCES - ENDING	<u>\$ 452,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,278</u>	<u>\$ 531,493</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**Board of Trustees
Township of Covert, Michigan**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, as of and for the year ended June 30, 2007, which collectively comprise Township of Covert's basic financial statements and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Covert's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Covert's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Covert's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Covert's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Covert's financial statements that is more than inconsequential will not be prevented or detected by Township of Covert's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Covert's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the following significant deficiency is a material weakness.

- Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record changes in capital assets and related debt, and to develop appropriate footnote disclosures were not in place. As in prior years, the Township has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting financial statement preparation services with its auditor.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether by the Township of Covert's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Sigfried Crandall P.C.

December 18, 2007